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ABSTRACT

Between April 29 and December 31, 1982, 244 community college employees in Washington retired. Of that group, 85 exercised an option to retire under a special early retirement program enacted by the 1982 state legislature. The net effect of the early retirement program was a 53.4% increase in the number of retirements over the number that might have otherwise been expected. This increase affected the community college system in the following ways: (1) a 1-year net savings of $821,226 was realized, due primarily to a relatively high incidence of positions eliminated in the early retirement group when compared to the group that retired under the regular program; (2) of the 85 early retirees, 47.1% were classified staff, 43.5% were faculty members, and 9.4% were administrative staff; (3) of the 159 employees retiring under normal eligibility criteria, 45.9% were faculty members, 37.7% were classified staff, and 16.3% were administrators; and (4) compared to the regular retirement group, the early retirement group had significantly fewer full-time and more part-time replacements. The early retirement program, occurring during a period of budget reductions, undoubtedly softened the impact of budget cuts by eliminating the need to pursue reduction-in-force actions on some campuses. Unfortunately, the savings from early retirements offset only about 2% of the budget reductions. (Author/LAL)

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EARLY RETIREMENT
OF
WASHINGTON COMMUNITY COLLEGE EMPLOYEES

A Study of the Statutory Early Retirement Program

of May-December, 1982

By

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JC 840 023

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EARLY RETIREMENT OF WASHINGTON COMMUNITY COLLEGE EMPLOYEES

Summary

During a period of slightly more than eight months, a total of 244 community college employees retired. Of that group, 85 exercised an option to retire under a special early retirement program enacted by the 1982 legislature. The net effect was a 53.4 percent increase in the number of retirements over the number that otherwise might have been expected to occur.

It was estimated that the community college system realized a one-year net savings of $821,226 as a result of the early retirement program. This was most directly due to a relatively high incidence of workforce reduction made possible by the program. The number of positions eliminated in the early retirement group was significantly greater than the corresponding proportion in a group that retired under the regular program.

Although no criteria of success were established for the goals of workforce reduction and dollar savings through the early retirement program, there is little question that in the case of the community colleges these purposes were achieved. The program, occurring during a period of budget reductions, also undoubtedly softened the blow of budget cuts by eliminating the need to pursue reduction-in-force actions on some campuses. In that way, the program served an additional and important social purpose. Unfortunately, the savings from early retirements offset only about two percent of the budget reductions.

One of the secondary effects of an early retirement program is the revitalization of the workforce that can occur. In the case of colleges, the program provided an opportunity to achieve a more appropriate match between service demands and staff expertise.

Background

On April 29, 1982, Governor John Spellman signed into law Second Substitute House Bill 124, creating an early retirement program for state and school district employees. From that date until December 31, 1982, certain eligible employees could take advantage of the temporarily lowered age and service requirements that qualify one for pension benefits from a state-operated retirement plan.

The legislature had a specific purpose in mind when it authorized an early retirement program. The preamble of 2ndSHB 124 stated:

> "The legislature has determined it is in the best interest of the state to temporarily provide for a special early retirement benefit which would enable certain employees to leave state service. It is the intent of the legislature that the resulting lower level of employment achieved through the utilization of this special early retirement be maintained by the agency or political subdivision for whom the retiring employees was employed.

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The early retirement option was available to eligible members of the Teachers (TRS), Public Employees (PERS), Higher Education (TIAA/CREF), and State Patrol retirement systems. Community college employees are members of all but the latter of these systems.

Under the early retirement program, TRS and PERS members could retire at age 55 with five years of service credit, or, regardless of age, with 25 years of service. Members of the TIAA/CREF plan could also qualify regardless of age if they had 25 years of service, or, if age 55, they could retire with ten years service in TIAA/CREF. In addition, any supplemental benefit for which a TIAA/CREF early retiree might qualify would not have to be actuarially reduced from age 65, as is the case under normal retirement rules.

As a means of assessing the impact of the early retirement program, the community college districts were asked to submit information about both early and regular retirees who terminated during the period when the early retirement option was available. This information was analyzed to identify the workforce reductions and financial impact resulting from the program.

Financial Impact

The early retirement option was available to eligible employees for slightly more than eight months. During that period, 85 community college employees who qualified for the program chose to retire. Nearly all of the financial impact of the program occurred in FY 1983 because only three of the retirements were effective prior to July 1, 1982. The following information summarizes the results of the early retirement program and estimates the financial effect it had on the college system.

Early Retirement Program FY 1983 Impact

1.	Number of Early Retirees	85
2.	Total Final Year Salaries, 85 Retirees	$1,934,612
3.	Total Salaries of Retirees and Replacement, FY 1983	- $ 968,960
4.	Gross Salary Savings, FY 1983	$ 965,652
5.	Estimated Savings Related to Benefits	+ $ 164,160
6.	Cost of Annual Leave Cashout, 85 Retirees	- $ 90,511
7.	Cost of Sick Leave Cashout, 85 Retirees	- $ 210,075
8.	Cost of TIAA/CREF Supplements, FY 1983	- $ 8,000
9.	Estimated Net Savings, FY 1983	$ 821,226

In the summary above, the amount identified as "Final Year Salaries" was the amount the 85 early retirees would have earned in FY 1983 had they all remained employed for the entire year. The "Gross Salary Savings" was determined by reducing the "Final Year Salaries" amount by the retirees' FY 1983 earnings (if

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any) and by their replacements' earnings (if any). The "Net Savings" amount was then determined by adding back the estimated benefits savings and deducting the costs of remuneration for unused leave and TIAA/CREF supplemental benefits. The benefits savings were estimated to be 17 percent of the gross salary savings.

The savings calculated above are obviously only approximations of the financial impact of the program. They could not take into account mid-year salary or personnel changes that might have occurred, nor could they be sensitive to variations in the level of assignments of the part-time replacements that affect both earnings and benefit costs. Nonetheless, they do seem to be reasonable estimates of the program's effects during a period of fiscal austerity. Whether a similar program would have the same results under less pressing economic conditions is questionable.

While it can be demonstrated that the various colleges did benefit financially from the early retirement program, the same may not be true for the State of Washington as a whole. The true cost of such a program will be estimated by a larger study[1] covering all state employees who took advantage of the early retirement option. These cost estimates will include projections of long-range effects on the obligations of the TRS and PERS systems resulting from an unanticipated increase in the number of retirees, who, in addition, will tend to receive pension benefits for a longer time.

The TIAA/CREF plan, on the other hand, is essentially a pay-as-you-go system, in that pension benefits are based on prepaid insurance annuities. The only lingering cost will be payments in subsequent years related to the small supplemental benefit cost experienced in FY 1983. The cost of supplemental payments could be eliminated or greatly reduced in a future early retirement program if the legislation required that such payments must be actuarially reduced if the employee is under the "normal" retirement age.

The savings to the college system, however, are impressive. The estimated $821,226 saving is more than 36 percent of what the system's costs for salaries and benefits might have been had none of the 85 early retirees terminated employment. This assumes that none of the early retirees would have otherwise retired or terminated and that benefit costs would have averaged 17 percent of earnings. Details of the savings estimates of the various districts can be found in the appendix of the report.

Workforce Impact

The 85 community college early retirees constituted slightly less than 1.5 percent of the estimated 6,000 college and State Board employees who participated in a retirement plan during the early retirement "window" period. In addition, during

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[1] The early retirement statute required the Office of Financial Management (OFM) to study the effects of the early retirement on all state agencies and report its findings prior to the 1984 legislative session.

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the eight months when the early retirement program was operating, there were 159 other community college employees who chose to retire based on the "normal" or regular eligibility criteria. Thus, a total of 244 employees representing approximately four percent of the covered workforce retired during the period.

The distribution of early retirees among the classes of employees and the three retirement plans are displayed below. The corresponding totals for the regular retirees are shown for comparison purposes.

Early and Regular Retirement: Participation Rates

Retirement Plan	Faculty Members	Classified Staff	Administrative Staff	Total "Early"	Total "Regular"
TRS	28	0	2	30 (35.3%)	77 (48.4%)
TIAA/CREF	8	0	1	9 (10.5%)	18 (11.3%)
PERS	1	40	5	46 (54.1%)	64 (40.2%)
TOTAL "Early"	37 (43.5%)	40 (47.1%)	8 (9.4%)	85	--
TOTAL "Regular"	73 (45.9%)	60 (37.7%)	26 (16.3%)	--	159

If these data are an accurate representation of employees' responses to a retirement incentive program, apparently PERS members are more receptive to the opportunity than are either TRS or TIAA/CREF members. Although TIAA/CREF participants constitute more than one-third of all employees who are covered by a retirement plan, their response to the early retirement program was disproportionately low. This is because as a group TIAA/CREF participants tend to be younger than members of other systems, particularly TRS. Thus, fewer TIAA/CREF members could meet the eligibility criteria of the early retirement program.

These data also suggest that classified employees tend to retire at the earliest possible opportunity, as evidenced by their greater representation in the early retirement group. Conversely, faculty members and administrators, who as a group tend to enjoy a superior system of job-related rewards, apparently are somewhat less prone to take advantage of a retirement incentive program.

Tendency to participate, however, may be inversely related to the financial benefits an institution can achieve through an early retirement program. There is some evidence that early retirement programs in higher education institutions do not result in savings, with respect to non-faculty participants, when the long-range costs of paying pension benefits are considered.[2] Apparently, the relatively greater salary savings resulting from faculty retirements are sufficient to offset the payment of pension benefits over a longer period of time.

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[2] A 1981 study by the California Legislative Analyst of an early retirement program for employees of the California State University and College System concluded that the program was cost effective with regard to faculty retirements, but not so with regard to non-faculty employees who participated. The study projected the long-range costs of that state's retirement systems for teachers and classified employees resulting from the impact of early retirements.

Reduction of the workforce was the major objective stated in the early retirement legislation. The following table shows the disposition of duties associated with the 85 early retirement and the 159 regular retirement positions.

Early and Regular Retirements: Disposition of Duties

Disposition of Duties	Faculty Members	Classified Staff	Admin. Staff	Total "Early"	Total "Regular"
Replacement hired full-time	9	6	3	18 (21.2%)	54 (33.9%)
Replacement hired part-time	14	7	1	22 (25.9%)	25 (15.7%)
Promotion or transfer of existing employee	8	21	2	31 (36.5%)	60 (37.7%)
Position eliminated	6	6	2	14 (16.5%)	20 (12.6%)
TOTAL "Early"	37 (43.5%)	40 (47.1%)	8 (9.4%)	85	--
TOTAL "Regular"	73 (45.9%)	60 (37.7%)	26 (16.3%)	--	159

With regard to workforce reduction, the differences in the approach to hiring replacements for the early and the regular retirement groups is probably the most important finding of this study. When compared to the regular retirement group, the early retirement program had significantly fewer full-time and more part-time replacements. This is critical to both the first-year and the long-range savings resulting from the early retirement program. Not only were the immediate salary and benefit costs of replacements reduced, the ultimate cost of pension benefits for the successor group will be lower.

If the differences in replacement ratios is generally true of early and regular retirement programs, workforce reduction may not be the most important outcome of such a program. A revitalized and less-costly workforce that is only slightly smaller may well be an equally desirable result to expect.

Concluding Comments

The early retirement program occurred during the second year of a biennium when community college budgets were cut by nearly $37.5 million (9.4 percent). The net savings from the early retirements reported here, represented only a small portion of the budget reductions, but they assisted the colleges in minimizing the service reductions that resulted.

Savings realized as a result of the early retirements also helped reduce the number of reduction-in-force actions by colleges. In that sense, the program made a contribution toward sustaining the quality of the colleges' instructional efforts.

The long-range cost of the early retirement program will be calculated by an OFM study of the effects of paying pensions to an unanticipated group of retirees over a longer period of time. That study will determine whether the short-range benefits of such a program can justify what very likely will be a significantly increased long-range cost to the state's pension programs.

APPENDIX

DISTRICTS/COLLEGES	EARLY RETIREES	GROSS SALARY SAVINGS	EST. BENEFIT SAVINGS	COST OF LEAVE CASHOUT		COST OF TIAA/CREF SUPPLE-MENTS	FY 1983 NET SAVINGS
				ANNUAL	SICK		
1 PENINSULA	1	$ 10,242	$ 1,741	$ 2,068	$ 1,194	$ --	$ 8,721
2 GRAYS HARBOR	1	8,766	1,490	663	1,603	--	7,990
3 OLYMPIC	1	12,644	2,149	--	--	--	14,793
4 SKAGIT VALLEY	5	77,152	13,116	4,205	10,030	--	76,033
5 EVERETT	6	77,856	13,236	1,642	22,007	3,918	63,525
6 DIST. 6--SEATTLE	19	206,331	35,076	20,035	33,167	1,351	186,854
7 SHORELINE	5	37,568	6,387	7,787	10,709	--	25,459
8 BELLEVUE	1	14,124	2,401	2,287	4,108	--	10,130
9 HIGHLINE	5	64,531	10,970	9,814	10,227	--	55,460
10 GREEN RIVER	4	35,299	6,000	4,037	7,460	--	29,802
11 FORT STEILACOOM	1	1,848	314	1,352	808	--	2
12 DIST. 12--CENTRALIA/OTCC	8	53,678	9,125	15,627	20,443	--	26,733
13 LOWER COLUMBIA	1	15,986	2,718	--	2,905	--	15,799
14 CLARK	1	15,835	2,692	--	3,883	--	14,644
15 WENATCHEE VALLEY	5	51,278	8,717	5,902	16,471	801	36,821
16 YAKIMA VALLEY	3	17,028	2,895	--	7,060	--	12,863
17 DIST. 17--SPOKANE	5	100,843	17,143	--	27,201	--	90,785
18 BIG BEND	1	24,960	4,243	3,145	99	--	25,959
19 COLUMBIA BASIN	2	12,380	2,105	--	14,509	667	<691>
20 WALLA WALLA	5	44,635	7,588	3,901	7,290	--	41,032
21 WHATCOM	--	--	--	--	--	--	--
22 TACOMA	3	27,061	4,600	4,789	2,178	--	24,694
23 EDMONDS	1	16,404	2,789	1,079	727	--	17,387
SBCCE	1	39,203	6,665	2,178	5,996	1,263	36,431
SYSTEM TOTALS	85	$965,652	$164,160	$90,511	$210,075	$8,000	$821,226

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